

INDEPENDENT AUDITORS' REPORT

**MISSOURI PETROLEUM STORAGE
TANK INSURANCE FUND
(A COMPONENT UNIT OF THE
STATE OF MISSOURI)**

FOR THE YEAR ENDED JUNE 30, 2009

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**CASEY AND COMPANY, L.L.C.
CERTIFIED PUBLIC ACCOUNTANTS
COLUMBIA, MISSOURI**

**MISSOURI PETROLEUM STORAGE
TANK INSURANCE FUND
(A COMPONENT UNIT OF THE STATE OF MISSOURI)**

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October 8, 2009

INDEPENDENT AUDITORS' REPORT

To the Board of Trustees
Missouri Petroleum Storage Tank Insurance Fund

We have audited the accompanying financial statements of the business-type activities of the Missouri Petroleum Storage Tank Insurance Fund (the "PSTIF"), a component unit of the state of Missouri, as of and for the year ended June 30, 2009, as listed in the table of contents. These financial statements are the responsibility of the PSTIF's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

As discussed in Note 1, the financial statements present only the PSTIF and do not purport to, and do not present fairly, the financial position of the state of Missouri as of June 30, 2009, and the changes in its financial position and cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the business-type activities of the PSTIF as of June 30, 2009, and the respective changes in financial position and its cash flows, where applicable, for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated October 8, 2009, on our consideration of the PSTIF's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal

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control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and important for assessing the results of our audit.

PSTIF has not presented the managements' discussion and analysis that accounting principles generally accepted in the United States of America has determined is necessary to supplement, although not required to be part of, the financial statements.

Casey and Company, LLC

Casey and Company, LLC
Certified Public Accountants
Columbia, Mo

FINANCIAL STATEMENTS

**PETROLEUM STORAGE TANK INSURANCE FUND
(A COMPONENT UNIT OF THE STATE OF MISSOURI)
STATEMENT OF NET ASSETS
JUNE 30, 2009**

ASSETS

Current Assets:		
Pooled cash and cash equivalents	\$	83,841,833
Accounts receivable		2,421,120
Accrued interest receivable		<u>305,772</u>
Total Current Assets		<u>86,568,725</u>
Capital Assets (net of accumulated depreciation of \$191,404)		<u>19,693</u>
Total Assets	\$	<u><u>86,588,418</u></u>

LIABILITIES AND NET ASSETS

Current Liabilities:		
Accounts payable	\$	11,497
Deferred revenue		514,882
Claims liability - current		15,000,000
Compensated absences - current		<u>57,219</u>
Total Current Liabilities	\$	<u>15,583,598</u>
Noncurrent Liabilities:		
Claims liability - non-current		<u>97,688,499</u>
Total Noncurrent Liabilities	\$	<u>97,688,499</u>
Total Liabilities	\$	<u>113,272,097</u>
Net Assets:		
Invested in capital assets, net of related debt	\$	19,693
Unrestricted (accumulated deficit)		<u>(26,703,372)</u>
Total Net Assets	\$	<u><u>(26,683,679)</u></u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS.

**PETROLEUM STORAGE TANK INSURANCE FUND
(A COMPONENT UNIT OF THE STATE OF MISSOURI)
STATEMENT OF REVENUE, EXPENSES AND CHANGE IN NET ASSETS
FOR THE YEAR ENDED JUNE 30, 2009**

OPERATING REVENUES	
Transport load, initial tank, and participation fees	\$ 15,269,527
Cost reimbursements and miscellaneous	4,511
Total Operating Revenues	<u>\$ 15,274,038</u>
 OPERATING EXPENSES	
Personal services	\$ 1,338,266
Operations	3,918,352
Specific programs-claim expenses	11,739,121
Depreciation	12,643
Total Operating Expenses	<u>\$ 17,008,382</u>
OPERATING INCOME	<u>\$ (1,734,344)</u>
 NON-OPERATING REVENUES (EXPENSES)	
Investment earnings	<u>\$ 2,015,288</u>
INCOME BEFORE TRANSFERS	280,944
Transfers to other funds	<u>\$ 110,174</u>
CHANGE IN NET ASSETS	\$ 170,770
NET ASSETS (ACCUMULATED DEFICIT) - BEGINNING OF YEAR	<u>\$ (26,854,449)</u>
NET ASSETS (ACCUMULATED DEFICIT) - END OF YEAR	<u><u>\$ (26,683,679)</u></u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS.

**PETROLEUM STORAGE TANK INSURANCE FUND
(A COMPONENT UNIT OF THE STATE OF MISSOURI)
STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED JUNE 30, 2009**

Cash flows from operating activities:	
Cash received from customers and users	\$ 16,655,543
Cash paid to employees	(1,376,300)
Cash payments to vendors for goods and services	(3,636,346)
Cash payments for claims	(15,783,846)
Net cash provided (used) by operating activities	<u>(4,140,949)</u>
Cash flows from capital and related financing activities:	
Purchases of capital assets	<u>(6,426)</u>
Net cash provided (used) for capital and related financing activities	<u>(6,426)</u>
Cash flows from investing activities:	
Interest and investment earnings	<u>2,015,288</u>
Net cash provided by investing activities	<u>2,015,288</u>
Net increase (decrease) in cash and cash equivalents	(2,132,087)
Transfers to Other Funds	(110,174)
Cash and cash equivalents, beginning of year	\$ <u>86,084,094</u>
Cash and cash equivalents, end of year	\$ <u><u>83,841,833</u></u>
Reconciliation of operating income (loss) to net cash provided (used) by operating activities:	
Operating income	\$ (1,734,344)
Adjustments to reconcile operating income to net cash provided (used) by operating activities:	
Depreciation expense	12,643
Changes in assets and liabilities:	
(Increase) decrease in accounts receivables	1,384,963
(Increase) decrease in interest receivable	295,943
Increase (decrease) in accounts payable	(10,512)
Increase (decrease) in deferred revenue	(6,883)
Increase (decrease) in compensated absences	(38,034)
Increase (decrease) in claims payable	(4,044,725)
Net cash provided by operating activities	<u>\$ (4,140,949)</u>

SEE ACCOMPANYING NOTES TO THE BASIC FINANCIAL STATEMENTS.

**PETROLEUM STORAGE TANK INSURANCE FUND
(A COMPONENT UNIT OF THE STATE OF MISSOURI)
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2009**

NOTE 1: FINANCIAL REPORTING ENTITY AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:

A. Financial Reporting Entity

The Petroleum Storage Tank Insurance Fund (the "PSTIF"), created by Section 319.129 RSMo in 1989, is an independent, self-supporting, quasi-governmental entity governed by an 11-member board of trustees. State law indicates that the PSTIF will expire on December 31, 2020 with the exception of completing payment of claims made prior to that date. The purpose of the PSTIF is to provide insurance coverage for storage tank owners for the expenses of cleaning up a leak, as well as third-party property damage and bodily injury resulting from leaks. The law requires the owner/operator to comply with certain Department of Natural Resources (DNR) and Department of Agriculture operating requirements in order to be insured. In addition, the PSTIF pays for the expenses to clean up the sites where petroleum storage tanks have been closed if they meet certain criteria.

The PSTIF is a blended component unit of the state of Missouri (the "State") as defined by Governmental Accounting Standards Board (GASB) Statement No. 14, *The Financial Reporting Entity*, as amended by GASB 39 *Determining Whether Certain Organizations Are Component Units*. Based on these statements, the accompanying financial statements include only those operations related to the PSTIF and are not intended to present fairly the financial position and results of operations of the State.

These financial statements include those transactions under the operational control of the PSTIF's board of trustees, as well as transactions under the control of other state agencies that have been assigned or allocated to the PSTIF.

B. Basis of Presentation

The PSTIF accounts for its activities as an enterprise fund, a type of proprietary fund. Proprietary funds are used to account for ongoing activities that are similar to activities found in the private sector. The measurement focus is upon determination of net income.

Specifically, enterprise funds account for operations that provide a service to citizens that are financed primarily by a user charge for the provision of that service. Enterprise funds also account for activities, where the periodic measurement of net income is deemed appropriate for capital maintenance, public policy, management control, accountability, or other purposes.

C. Method of Accounting

The accrual basis of accounting is utilized for the PSTIF. With this measurement focus, revenues are recognized when earned and expenses are recorded when incurred. The PSTIF recognizes revenue on transport load fees based on when the fee was incurred by the transporter. Participation fees are earned based on the period in which the owner/operator is being insured. The PSTIF recognizes claims reserve liabilities and the related expenses when the PSTIF becomes aware of contaminations at a storage tank site and estimates the costs to clean up the contamination.

The PSTIF applies all Financial Accounting Standards Board (FASB) statements and interpretations issued on or before November 30, 1989 and all Accounting Principles Board (APB) Opinions and Accounting Research Bulletins, except for those that conflict with or contradict GASB pronouncements.

**PETROLEUM STORAGE TANK INSURANCE FUND
(A COMPONENT UNIT OF THE STATE OF MISSOURI)
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
FOR THE YEAR ENDED JUNE 30, 2009**

NOTE 1: FINANCIAL REPORTING ENTITY AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES: (CONTINUED)

D. Deposits and Investments

Cash and cash equivalents for the statement of cash flows includes cash and short-term investments, which are invested by the State as part of the State's cash pool. All deposit and investment risk is controlled by the State. Information concerning the State's deposit and investment risks may be found in the State's 2008 Comprehensive Annual Financial Report.

E. Receivables and Uncollectible Accounts

Accounts receivable are comprised of transport load fees. The PSTIF considers all accounts receivable to be fully collectible. Therefore, no allowance for uncollectible accounts has been provided for.

F. Capital Assets

All capital assets for the Petroleum Storage Tank Insurance Fund (held both by the PSTIF and by DNR) with useful lives of more than one year and valued at greater than \$1,000 are stated at historical cost. The costs of normal maintenance and repairs that do not add to the asset value or materially extend useful lives are not capitalized. Capital assets are depreciated using the straight-line method with estimated useful lives from 3 to 5 years. The DNR calculates the depreciation on its applicable assets and provides the amounts to the PSTIF. When capital assets are disposed of, the cost and applicable accumulated depreciation are removed from the respective accounts, and the resulting gain or loss is recorded in operations.

H. Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results may differ from those estimates.

NOTE 2: REVENUES

The PSTIF receives the following fee revenues:

- *Transport load fee* – Fee upon each load of petroleum brought into the state. This fee was \$40 per 8,000 gallons of petroleum through August 31, 2008. Effective September 1, 2008, the fee was reduced to \$20 per 8,000 gallons of petroleum.
- *Tank fee* – One-time fee of \$100 paid by the tank owners and operators for participation in the PSTIF.
- *Participation fee* – A fee paid by the tank owners and operators who apply for and receive insurance coverage from the PSTIF. The fee is assessed on each tank insured annually. This fee ranges from \$100 to \$200 per tank insured.

**PETROLEUM STORAGE TANK INSURANCE FUND
(A COMPONENT UNIT OF THE STATE OF MISSOURI)
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
FOR THE YEAR ENDED JUNE 30, 2009**

NOTE 2: REVENUES (CONTINUED)

The PSTIF has classified its revenues as either operating or nonoperating revenues according to the following criteria:

Operating revenues – Operating revenues include activities that have the characteristics of exchanged transactions, such as charges for program participation. Also included in operating revenues are transport load fees, which the State has identified as the primary source of program funding.

Nonoperating revenues – Nonoperating revenues include interest on deposits and investments.

NOTE 3: CAPITAL ASSETS AND DEPRECIATION

The activity of the capital assets and accumulated depreciation for the year ended June 30, 2009 is as follows:

<u>Cost</u>	
Beginning balance, July 1, 2008	\$ 214,338
Additions	6,426
Deletions	<u>(9,667)</u>
Ending balance, June 30, 2009	\$ <u>211,097</u>
 <u>Accumulated depreciation</u>	
Beginning balance, July 1, 2008	\$ 188,428
Additions	12,643
Deletions	<u>(9,667)</u>
Ending balance, June 30, 2009	\$ <u>191,404</u>
 Fixed assets, net, June 30, 2009	 \$ <u><u>19,693</u></u>

NOTE 4: CLAIMS LIABILITY

Claims liabilities are reported when it is probable that a loss has occurred and the amount of that loss can be reasonably estimated. Liabilities include an amount for claims that have been incurred but not reported. The PSTIF has claims liability for the cost of contamination cleanup for policyholders and other eligible site owners who have submitted notice of a contamination. Because actual claims liabilities depend on such complex factors the process used in computing claims liability does not necessarily result in an exact amount. These liabilities are reported as part of the total claims liability at year-end. Claims liabilities are reevaluated continually on each case to take into consideration recently settled claims, additional cost considerations, and other economic and social factors. The PSTIF's reconciliation of its beginning and ending claims liabilities is summarized as follows:

**PETROLEUM STORAGE TANK INSURANCE FUND
(A COMPONENT UNIT OF THE STATE OF MISSOURI)
NOTES TO THE FINANCIAL STATEMENTS (CONTINUED)
FOR THE YEAR ENDED JUNE 30, 2009**

NOTE 4: CLAIMS LIABILITY (CONTINUED)

Liability at beginning of year	\$116,733,224
Claims payments	(15,783,846)
Claims incurred and changes in estimates	<u>11,739,121</u>
Liability at end of year	<u>\$112,688,499</u>

NOTE 5: EMPLOYEE FRINGE BENEFITS

State employees, including those employed by or paid from the PSTF, are covered by the Missouri State Employees' Retirement System (MOSERS) (a noncontributory plan) and may participate in the State's healthcare, option life insurance, deferred compensation, and cafeteria plans. The optional life insurance and cafeteria plans involve only employee contributions or payroll deductions. Also, the deferred compensation plan involves employee deferrals and a monthly State matching contribution for each participating employee.

The State's required contributions for employee fringe benefits are paid from the same funds as the related payroll. Those contributions are for MOSERS (retirement, basic life insurance, and long-term disability benefits), socials security and Medicare taxes, healthcare premiums, and the deferred compensation plan match.

NOTE 6: COMPENSATED ABSENCES

State employees, including those employed by or paid by the PSTIF, are granted vacation, sick and compensatory leave in varying amounts. In the event of termination, an employee is paid for accumulated vacation and compensatory hours. Employees are not paid for accumulated sick leave upon termination. The amounts of accrued vacation and compensatory hours are included in accrued liabilities as a current liability in the accompanying statement of net assets. The costs of sick leave are recorded when paid and are not accrued. The total compensated absences as of June 30, 2009 included in liabilities total \$57,219.

NOTE 7: CONTINGENCIES

Legal Matters

The PSTIF is involved in various lawsuits and threatened lawsuits. In the opinion of PSTIF legal counsel, the outcome and range of potential loss for these lawsuits cannot readily be determined due to the nature and uncertainties of each case. The PSTIF has not included any contingency liability in its financial statements, although some cases have reserve estimates already included in Claim Reserves. The PSTIF's statutory maximum liability for any release is \$1,000,000. There is one case in which the Fund itself has been sued; in this case the Fund's liability could exceed this amount.

SUPPLEMENTARY INFORMATION

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October 8, 2009

REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS*

To the Board of Trustees
Missouri Petroleum Storage Tank Insurance Fund

We have audited the financial statements of the business-type activities of the Petroleum Storage Tank Insurance Fund (the "PSTIF"), a component unit of the state of Missouri, as of and for the year ended June 30, 2009, which collectively comprise the PSTIF's basic financial statements and have issued our report thereon dated October 8, 2009. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the PSTIF's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the PSTIF's internal control over financial reporting.

A deficiency in control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. *A material weakness* is a deficiency, or combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be deficiencies, significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Petroleum Storage Tank Insurance Fund's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grants,

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noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that is required to be reported under *Government Auditing Standards*.

This report is intended solely for the information and use of management and board of trustees and is not intended to be and should not be used by anyone other than these specified parties.

Casey and Company, LLC

Casey and Company L.L.C.
Certified Public Accountants
Columbia, Missouri